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No. 04-1329

In the Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,
Petitioners,
v.
INDEPENDENT INK, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* AMERICAN ANTITRUST INSTITUTE, AMERICAN LIBRARY ASSOCIATION, AMERICAN ASSOCIATION OF LAW LIBRARIES, ASSOCIATION OF RESEARCH LIBRARIES, SPECIAL LIBRARIES ASSOCIATION, CERTIFIED AUTOMOTIVE PARTS ASSOCIATION, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, AUTOMOTIVE PARTS REMANUFACTURERS ASSOCIATION, PRODUCTION ENGINE REMANUFACTURERS ASSOCIATION, SERVICE STATION DEALERS OF AMERICA & ALLIED TRADES, TIRE INDUSTRY ASSOCIATION AND VALUECLICK, INC. IN SUPPORT OF RESPONDENT

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Question Presented for Review

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product?

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BRIEF OF *AMICI CURIAE* AMERICAN ANTITRUST INSTITUTE, AMERICAN LIBRARY ASSOCIATION, AMERICAN ASSOCIATION OF LAW LIBRARIES, ASSOCIATION OF RESEARCH LIBRARIES, SPECIAL LIBRARIES ASSOCIATION, CERTIFIED AUTOMOTIVE PARTS ASSOCIATION, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, AUTOMOTIVE PARTS REMANUFACTURERS ASSOCIATION, PRODUCTION ENGINE REMANUFACTURERS ASSOCIATION, SERVICE STATION DEALERS OF AMERICA & ALLIED TRADES, TIRE INDUSTRY ASSOCIATION AND VALUECLICK, INC. IN SUPPORT OF RESPONDENT

September 28, 2005

Statement of Interest[1]

The American Antitrust Institute (AAI) is an independent, not-for-profit organization whose mission is to increase the role of competition and sustain the vitality of the antitrust laws. This filing has been authorized by the directors of the AAI, Jonathan Cuneo, Esq., Albert H. Foer, Esq., and Professor Robert Lande of the University of Baltimore Law School. The Advisory Board of the AAI consists of more than 85 prominent lawyers, law professors, economists and business leaders (listed on the AAI web site: www.antitrustinstitute.org). The Advisory Board serves in a consultative capacity and their individual views may

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[1]The consent of all parties to the filing of this brief has been lodged with the Clerk. Pursuant to Rule 37.6, *amici curiae* state that no counsel for a party authored this brief in whole or in part, and that no persons other than *amici* or its counsel have made a monetary contribution to the preparation or submission of this brief.

differ from the positions taken by the AAI.

The American Library Association (ALA) is the oldest and largest library association in the world, with over 66,000 members representing school, public and academic libraries as well as library trustees and friends-of-libraries.

The American Association of Law Libraries (AALL) is a not-for-profit educational organization with over 5,000 members nationwide. AALL's mission is to promote and enhance the value of law libraries, to foster law librarianship, and to provide leadership and advocacy in the field of legal information and information policy.

The Association of Research Libraries (ARL) is a not-for-profit association of 123 research libraries in North America. ARL's mission is to influence the changing environment of scholarly communication and the public policies that affect research libraries and the communities they serve.

The Special Libraries Association (SLA) serves 12,000 members in the information profession, including corporate, academic, and government information specialists.

The Certified Automotive Parts Association (CAPA) is an independent, not-for-profit standard setting and quality certification organization. CAPA certification identifies independently produced automotive crash repair parts that meet high quality standards for fit, form, finish, material content and corrosion resistance.

The Computer and Communications Industry Association (CCIA) is a trade association representing companies from all sectors of the information technology industry, employing over half a million workers and generating over $200 billion in annual sales. For 33 years, CCIA has promoted open markets, open systems, open networks and full, fair and open competition.

The Automotive Parts Remanufacturers Association (APRA) represents companies which rebuild and remanufacture motor vehicle parts (except engines) that compete directly with automotive manufacturers' new and rebuilt parts for sale to service stations, garages, fleets, and

individuals.

The Production Engine Remanufacturers Association (PERA) represents companies which remanufacture motor vehicle engines on assembly lines for resale in the motor vehicle aftermarket.

The Service Station Dealers of America & Allied Trades (SSDA) is a non-profit trade association representing twenty state and regional affiliates which represent over 15,000 independent service station dealers nationwide.

The Tire Industry Association (TIA) is a national non-profit trade association with more than 5,000 members, including tire dealers and retreaders, tire and tread rubber manufacturers, tire wholesalers, distributors and suppliers.

ValueClick is a leading provider of services for online advertising with growing e-commerce operations that include the sale of remanufactured ink products through sites such as 123InkJets.com and InkBlvd.com.

The interest of *amici* is to encourage an appropriate balance between intellectual property rights and the principles of competition as embodied in the antitrust laws. *Amici* believe that intellectual property is vital to innovation, but that excessive protection can be as harmful as too little. In addition, *amici* in this filing broaden and balance the economic perspective with respect to the issues raised in this case.

Summary of the Argument

Amici curiae argue herein that when competition is harmed in a market separate from the market for a patented product due to tying, the rebuttable presumption that shifts the burden of going forward with evidence to a defendant that claims not to have sufficient power to force the tie should be retained.

First, *amici* argue that the presumption embodied in this Court's precedent is based on sound economic reasoning. Products that incorporate patented technology are typically differentiated from competing, non-infringing

products, and such differentiation usually confers on the seller some degree of pricing discretion. When such pricing power is used to charge a premium over the price of competitive products, antitrust values are not offended. However, when such power is used to force a buyer to purchase a product in a separate market such conduct is subject to antitrust scrutiny. In cases in which the tying product is patented but the defendant claims no power to force the tie, logic and judicial economy dictate that the burden should be on the defendant to show that it belongs to the minority of cases in which the seller of a patented product lacks forcing power, and not on the plaintiff to prove otherwise.

Secondly, it is fundamental that a patentee has no legal right to exclude competition beyond the statutory patent grant. Antitrust doctrine properly reflects this limitation through a policy in which such exclusion constitutes unlawful anticompetitive conduct. The rebuttable presumption at issue reflects and furthers this procompetitive policy.

Argument

I. THE REBUTTABLE PRESUMPTION ESTABLISHED BY THIS COURT THAT A PATENT CONVEYS ECONOMIC POWER SUFFICIENT TO FORCE A TIE IS LONG-ESTABLISHED UNDER THIS COURT'S PRECEDENTS, WAS NOT ABROGATED IN *JEFFERSON PARISH*, AND SHOULD NOT BE ABROGATED NOW.

Historically, in the context of an allegation of *per se* unlawful tying under § 1 of the Sherman Act, "[t]he requisite economic power [in the tying product market] is presumed when the tying product is patented or copyrighted." *Loew's, Inc. v. United States*, 371 U.S. 38, 45-46 (1962). Courts since have "presumed a seller's market power in the tying product when it was patented or

copyrighted." Herbert Hovenkamp, *Federal Antitrust Policy*, (3d ed. 2005) § 10.3c (citations omitted). The presumption is rebuttable. *Id.* The genesis of this rebuttable presumption as it pertains to patented goods has been traced to *International Salt Co. v. United States*, 332 U.S. 392 (1947). See *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 37 (1984) (O'Conno_, J., concurring) ("In International Salt, supra the Court assumed that a patent conferred market power ... ").

A. The Power Presumed by the Rebuttable Presumption is Not Monopoly Power.

The *Loew's* Court characterized what it meant by the "requisite economic power" in some detail, rejecting outright the notion that market power in the sense of § 2 of the Sherman Act was required:

> The standard of illegality is that the seller must have 'sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product....' Market dominance—some power to control price and to exclude competition—*is by no means the only test of whether the seller has the requisite economic power. Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.* [fn]
>
> [fn] Since the requisite economic power may be found on the basis of either uniqueness or consumer appeal, and since market dominance in the present context *does not necessitate a demonstration of market power in the sense of Section 2 of the Sherman Act,*

> it should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product and into the corollary problem of the seller's percentage share in that market. *This is even more obviously true when the tying product is patented or copyrighted, in which case ... sufficiency of economic power is presumed.* Appellant's reliance on *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377 (1956) is therefore misplaced.

371 U.S. at 45 (emphasis added).

The straightforward economic rationale on which the rebuttable presumption rests, therefore, is that unique or differentiated products or services typically are able to command higher prices in the marketplace than are competing generic products. For this reason, sellers of differentiated products can usually raise prices above marginal costs. The premium over the price that would obtain in a perfectly competitive market arises when competitive substitutes are at best "similar" or perhaps "very close," but not "perfect." As the *Loew's* Court recognized, market power due to product differentiation—also sometimes called *pricing power*—may stem from a product's "desirability to consumers or from uniqueness in its attributes," 371 U.S. at 45, or when a "product is patented or copyrighted." *Id.*, at n. 4. Clearly, market dominance over or monopolization of the tying product market is not required.

The rebuttable presumption that a patentee possesses power sufficient to force a tie by virtue of his patent, therefore, constitutes judicial recognition of an elementary microeconomic principle and an irrefutable fact. The elementary principle is that the demand curve facing sellers of differentiated products slopes downward, *i.e.*, sellers of such products typically possess some degree of pricing

power due to differentiation that allows them to charge a premium over the perfectly competitive price. The unambiguous fact is that patented products are, by law, differentiated to the extent described by valid patent claims. Fundamentally, the rebuttable presumption is economically justified because patented products are differentiated *de jure*.[2]

The standard that the power in the tying market required for *per se* condemnation of a tie-in agreement need only rise to the level of pricing power enjoyed by sellers of differentiated products has never been repudiated and continues to represent well-established law. Moreover, in recent years the rebuttable presumption with respect to patented products has been reaffirmed repeatedly. For example, in *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969) (*Fortner I*) this Court made clear that for the purpose of determining whether the seller of a tying product possesses sufficient power to force a tie

> [t]he standard of 'sufficient economic power' does not ... require that the defendant have a monopoly or even a dominant position throughout the market for the tying product. Our tie-in cases have made *unmistakably clear* that the economic power over the tying product can be sufficient *even though the power falls far short of dominance* and even though the power exists only with respect to some of the buyers in the market.

394 U.S. at 502 (emphasis added).

Eight years later, in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610 (1977) (*Fortner II*), this

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[2]This reasoning applies as well to copyrighted or trademarked products. Accordingly, precedents in these contexts are relied on herein. However, such reliance is not intended to advocate enlargement of the issue with respect to patented tying products now properly before this Court.

Court reiterated that its

> decisions do not require that the defendant have a monopoly or even a dominant position throughout the market for a tying product. They do, however, focus attention on the question whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market. In short, the question is whether the seller has some advantage not shared by his competitors in the market for the tying product.

429 U.S. at 620.

More recently, in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), this Court explained that

> the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. When such "forcing" is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated.

466 U.S. at 12. Indeed, a seller is likely to have the economic power to engage in such "anticompetitive forcing" if the government has granted the seller a patent, whereupon "it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Jefferson Parish*, 466 U.S. at 16 (citing *Loew's*).

As remarked upon by the court of appeals in this case, this Court has "consistently reaffirmed" the presumption in

patent and copyright tying cases. The Court's cases in this area

> squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a § 1 violation is presumed. The continued validity of *International Salt* and *Loew's* as binding authority, and the distinction between patent tying and other tying cases that was articulated in *Loew's*, have been consistently reaffirmed by the Court ever since.

Pet. App. 7a, 396 F.3d at 1348–9 (footnote omitted).

Accordingly, there can be no basis for the proposition, expressed by the district court below, that this Court's "vintage cases" no longer express current law, or that the Court's rebuttable presumption of market power based on patents "arose at a time when genuine proof of power in the market for the tying product was not required." Pet. App. 34a, n.10. This misstatement, repeated with apparent approval by the government in its *amicus* brief (Gov't. Br. 3), may be based on a misapprehension over the holding in *Jefferson Parish* or it may reflect a type of revisionism in which the concurrence rather than the plurality in that case carries the day. The entire statement, taken by the district court from Phillip E. Areeda, *et al. Antitrust Law* ¶ 1737a (1996), reads:

> Although most such inferences arose at a time when genuine proof of power in the market for the tying product was not required, the Supreme Court's *Jefferson Parish* opinion demanded real proof of such power and yet appeared to allow its inference from patents.

Id. This statement by its own terms does not stand for the proposition that is represented, *i.e.*, that this Court in *Jefferson Parish* repudiated the rebuttable presumption at issue.

To be sure, the concurrence in *Jefferson Parish* was highly critical of the presumption, opining that it was based on a "common misconception ... that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffice to demonstrate market power." *Jefferson Parish*, 466 U.S. at 37 (O'Connor, J., concurring). Yet in the introductory paragraph to Part II, the concurrence seemed to make just such a presumption, stating that "[m]arket power in the *tying* product market may be acquired legitimately (*e.g.*, through the grant of a patent)." 466 U.S. at 35 (emphasis in original). The discussion then conflates two distinct concepts of market power, obscuring the economic rationale underlying the rebuttable presumption.[3]

Nonetheless, what must at this point be clear is that no credible or responsible contention can be advanced that the rebuttable presumption was either overturned by the plurality opinion in *Jefferson Parish* or, as some have suggested, that it never existed in the first place, or, if it does, that it does not occupy a legitimate position within the bounds of this Court's antitrust jurisprudence.[4]

Clearly, as articulated by this Court in *Loew's*, the

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[3]The example in the concurrence in which a "flour monopolist" ties sales of its product to sugar is unfortunate. Flour is a standardized commodity that is likely to be traded in vigorously competitive markets that are well-approximated by a model of perfect competition. Accordingly, the *only* way a seller of flour could garner sufficient market power to force a tie is if it were a monopolist. However, a tying defendant need not be a monopolist to possesses sufficient economic power to force the tie.

[4]*See, e.g.*, Brief of *amici* Motion Picture Association of America, *et al.*, at 5 (arguing that "no settled rule of presuming antitrust market power from intellectual property ownership emerges from either [*Loew's*] or the precedent on which it rests").

Fortner cases, and in *Jefferson Parish*, a limited rebuttable presumption is available to plaintiffs alleging *per se* tying violations of § 1 of the Sherman Act that allows a court to presume that the seller of a patented product possesses enough power to enable him to force a tie to a product or service trading in a separate market.[5]

This is a far milder form of economic power than is ordinarily conveyed by the use of the term "market power," and certainly not the level of economic power conveyed by the terms "monopoly power" or "dominance." These latter concepts are associated with monopolization law, § 2 of the Sherman Act, and, by some scholars, with a market share in excess of 50%.[6] Contrast with this the *Antitrust Guidelines for the Licensing of Intellectual Property*, 4 Trade reg. Rep. (CCH) ¶ 13,132, § 4.3 (1995), which suggest that a restraint in a license must affect at least twenty percent of the relevant market before it will draw antitrust scrutiny, or *Jefferson Parish*, which is often cited for the proposition that the market share in the tying product market must be greater than thirty percent. *See* Herbert Hovenkamp, *Federal Antitrust Policy* (3d ed. 2005), § 10.3a ("Recent cases have generally refused to condemn tying arrangements on market shares smaller than 30% of the tying product market") (collecting cases).

The conflation of two types of economic power, one that corresponds to market dominance and another to the power to force a tie, probably accounts for much of the hyperbole and even alarm expressed by Petitioners and their *amici*. For example, Petitioners contend that the presumption is "the very embodiment of a 'formalistic' doctrine that is flatly

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[5] *See* Note, 79 Yale L.J. 86, 93-94 (1969) cited in *Fortner II*, 429 U.S. at 620 ("whenever there are some buyers who find a seller's product uniquely attractive, and are therefore willing to pay a premium above the price of its nearest substitute, the seller has the opportunity to impose a tie to some other good").

[6] Einer Elhauge, *Defining Better Monopolization Standards*, 56 Stan. L. Rev. 253, 257 (2003).

inconsistent with market reality." Pet. Br. 13.

However, only after the level of market power subject to the presumption is understood to be no more than some pricing power with respect to the patented good's next closest substitute, rather than monopolization or dominance of the tying product market, can it be seen that the presumption yields an accurate reflection of market reality. In particular, the rebuttable presumption implicitly adopts a realistic model of the market in which the seller of a patented product faces a downward-sloping demand curve rather than a horizontal demand curve corresponding to a perfectly competitive market. When a seller attempts to raise his price above the prevailing "market price" in perfectly competitive markets the quantity he sells immediately drops to zero. This is unlikely to be the case for the seller of a patented product.

It should be noted that substituting monopoly as the market power requirement subject to the rebuttable presumption, as Petitioners, their *amici*, the government, and many commentators tend to do, need not be openly declared. Such substitution can be accomplished inconspicuously simply by refusing to admit the possibility of imperfectly competitive markets, or by mixing contexts.

For instance, the government relies heavily in its *amicus* brief on the fact that as a matter of enforcement policy the Department of Justice and the Federal Trade Commission have rejected the presumption that patents confer market power. Br. Gov't. 13, citing *Antitrust Guidelines for the Licensing of Intellectual Property*, 4 Trade reg. Rep. (CCH) ¶ 13,132, § 2.2 (1995). However, even if reliance by a law enforcement agency on such a presumption were as "demonstrably unsound" as the government claims, a rebuttable presumption relied on by a *court* is entirely different because a presumption in that context operates merely to shift the burden of going forward with evidence on a particular issue. In quoting the reasoning given in the *Guidelines* for eschewing the presumption, moreover, the government attempts to

obscure this distinction between prosecutorial policy and trial procedure by omitting the following footnote:

> The Agencies note that the law is unclear on this issue. *Compare Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) (expressing the view in dictum that if a product is protected by a patent, "it is fair to presume that the inability to buy the product elsewhere gives the seller market power") *with id.* at 37 n.7 (O'Connor, J., concurring) ("[A] patent holder has no market power in any relevant sense if there are close substitutes for the patented product."). *Compare also Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991) (no presumption of market power from intellectual property right), *cert. denied*, 112 S. Ct. 2993 (1992) *with Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1341-42 (9th Cir. 1984) (requisite economic power is presumed from copyright), *cert. denied*, 473 U.S. 908 (1985).

Id., at § 2.2, n.10. *See also MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265 (11th Cir. 1999) (seller of copyrighted television programs presumed to possess sufficient economic power to force a tie) and *Digital Equipment Corp. v. Uniq Digital Technologies, Inc.* 73 F.3d 756 (7th Cir. 1996) (market power not presumed for seller of proprietary computer systems).

It is revealing that the courts that are careful to put the market power requirement in the relevant context generally uphold the rebuttable presumption. For example, in *Capra Inc. v. Ward Foods Inc.*, 536 F.2d 39, 48 (5th Cir. 1976) the court observed that the market power requirement ordinarily requires

> a factual assessment of the tying product's uniqueness and desirability, not its market power in the sense of a Section 2 Sherman Act violation. Uniqueness, of course, presupposes that competitors are in some way foreclosed from offering the distinctive product. *Fortner* points out ... that such barriers may be legal, as in the cases of patented or copyrighted products. Trademarks surely may be included in the list of such legal restraints, and, as with copyrighted material, the mere presence of competing substitutes is insufficient to destroy the legal, and more importantly the economic, distinctiveness of the trademark.

Id. (citations omitted), quoted with approval in *Digidyne Corp. v. Data General Corp.*, 734 F.2d at 134, in support of the notion that the analysis of market power in a tying product market is "quite different" from a § 2 analysis of market power.

Similarly, scholarly articles, such as those cited by the government that rail against the "traditional, though ill-conceived notion that the patent laws create 'monopolies'," (Br. Gov't. 13, n.5) frequently conflate different concepts of market power by employing analyses that only permit markets that are either perfectly competitive or completely monopolized. Such a view, of course, ignores most actual markets in today's economy, *e.g.*, monopolistic competition, oligopoly, or duopoly.[7] For instance, the government cites Edmund W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 Vand. L. Rev 1727, 1729–31 (2000), for the proposition that the "presumption that intellectual property rights are always associated with market power is an 'elementary' error." Br.

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[7] *See, e.g.*, Edward H. Chamberlin, *The Theory of Monopolistic Competition* (8th ed., 1962).

Gov't. 11. But the economic analysis in the cited article limits itself to a framework in which markets are either completely monopolized or perfectly competitive. There is no room in such a cosmology for imperfect competition or for the notion of market power in a competitive setting. Such a simplistic either-or model is facially inadequate to address the issues raised by the rebuttable presumption. Under such limitations, a market power requirement in the tying product market—if it means anything at all—means that all patents create economic monopolies, an overstatement of the rebuttable presumption at issue that bears no relationship to real markets throughout today's economy.

In sum, a determination that a tying agreement is a *per se* unreasonable restraint of trade under § 1 of the Sherman Act does not require the seller of the tying good to be a monopolist in the tying good market. This proposition is not only self-evident from the past pronouncements of this Court but also completely consistent with the apportionment under the Sherman Act of matters involving monopolization to § 2, 15 U.S.C. § 2, and matters involving competition-restraining agreements to § 1, 15 U.S.C. § 1.

Reflecting this distinction is this Court's recognition that "[m]onopoly power under § 2 requires ... something greater than market power under § 1." *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 481 (1992). But as one commentator has pointed out

> [t]o an economist, the distinction is theoretically puzzling: A firm either enjoys a downward-sloping demand curve or it doesn't. But courts and regulators sensibly recoil from that conclusion because it would make antitrust far too sweeping given that, in our brand-differentiated world, just about every producer has a brand name that enables it to enjoy a downward-sloping demand curve and thus has some pricing discretion. This is a problem that has only

> gotten worse over time, as we have moved from an economy that tends to focus on mass-produced, homogeneous commodities to an economy that focuses on providing not only brand-differentiated products but services and experiences that inevitably enjoy some pricing discretion.

Einer Elhauge, *Defining Better Monopolization Standards*, 56 Stan. L. Rev 253, 258 (2003). The conclusion that emerges when monopoly or pure competition are the only market structures under which tying market power may be analyzed is a prime example of economics that is "far too sweeping" for antitrust law.

The primary grounds advanced for the repudiation of the rebuttable presumption in this case, however, are the arguable worthlessness of most issued patents and its corollary, that most patents convey not a whit of market power. But most issued patents are not used to force tying arrangements. More fundamentally, the argument in question is merely another way of saying that the rebuttable presumption only makes sense when applied to patented products for which some positive quantity is demanded in the marketplace. Such a "non-zero constraint" may be necessary for *any* discussion of markets to make sense, but it is so broadly necessary and universally assumed that it becomes a trivial consideration. Legions of worthless patents are not enough to rebut the presumption in an actual case. Courts should continue to be authorized to presume, subject to rebuttal, that the seller of a *particular* patented good or process being used as a tying product possesses sufficient power to force the tie. A high proportion of worthless patents does not affect the likelihood that a patented product faces at most imperfect competition. Neither does the existence of such patents advance a rational argument for repudiating the rebuttable presumption.

Given the clear legal history, the sound justifications for

following precedent and adherence to the principle of *stare decisis*, those who advocate a departure from it bear a heavy burden to show not only the need for such a new policy but also that the practical implications will be positive.

B. A Presumption that Sellers of Patented Products Possess Some Discretion over Price Reflects Sound Economic Reasoning Because Patent Rights And Patented Inventions Do Not Compete Against Perfect Substitutes.

The ideal of perfect competition, in which all sellers are "price-takers" rather than "price-setters," closely and profitably approximates some markets, such as markets for standardized or undifferentiated commodities or shares of highly liquid securities. Patented products, however, are unlikely to trade in such markets, and patentees selling patented products are not likely to be price-takers. The perfect competition paradigm is inappropriate for patented products, and the rebuttable presumption merely reflects that this will almost always be the case.

The fact that competitive non-infringing substitutes may result in competition in the relevant tying product market does not alter the prohibition against competing products that infringe the patent or the fact that a patent ordinarily serves to differentiate a product from competing substitutes. In other words, patented products typically cannot be generic, fungible, or have perfect substitutes. Accordingly, the most sensible way to model the process in which patented products trade is imperfect competition.

Models of imperfect competition are not new, which raises the question of what, if anything, has changed so dramatically since the emergence of the presumption more than half a century ago that now renders it a formalism inconsistent with reality? It is reasonable to assume that the *Loew's* Court was familiar with the truism, repeated *ad nauseam* by Petitioners and their *amici*, that some out-

sized majority of issued patents are commercially worthless. Combining this observation with a market power requirement satisfied only by monopolization in the tying market, a nonsensical proposition emerges, to wit: all patents confer monopoly power. This distortion bears no relation to the rebuttable presumption that Petitioners and its *amici* now ask this Court to overturn.

These economic principles are not "laws of nature." Rather, they represent expectations based on economic reasoning. In the unusual or counterintuitive case the patentee is entitled to adduce rebuttal evidence that he is a price-taker, that other non-infringing products are perfect substitutes, or that other facts rebut the expectation that a patentee possesses the degree of power embodied in the presumption.

C. In an Action Under § 1 of the Sherman Act Alleging that a Tying Arrangement is Unlawful *Per Se*, the Requirement of Market Power in the Tying Product Market Screens Out Cases in which the Tying Product is Competitively Supplied.

In light of the fact that the Court's tying doctrine admits of the case in which the market for the tying product is competitive (albeit, imperfectly so), it is appropriate to inquire into the purpose of requiring market power in the *tying* product market in the first place, particularly when the competitive harm is alleged, as in the present case, to have occurred in the market for the *tied* product, which in this instance is the product sold by Respondent, ink formulated for use with Petitioner's patented print-heads. Petitioner's antitrust claim hangs on the ultimate issue of whether the arrangement tying ink to the right to use or sell the patented print-head constitutes an unreasonable restraint of trade. The trade being restrained is the trade in ink, not the trade in products that compete with Respondent's print-heads.

Since the antitrust offense does not require monopoly (or even near-monopolization) in the tying product market, the only coherent economic rationale by which market power should be required in that market is to ensure that the tying defendant possesses sufficient economic power to force the tie. In the absence of such power the tying allegation and the associated claim of adverse effect in the tied product market are economically implausible.

This is because price-takers in a perfectly competitive market by definition do not have enough market power to charge a premium above the "market price," nor, *a fortiori*, to force their customers to purchase a separate tied good to the detriment of competing sellers of the tied product. Therefore, perfect competition in the tying product market bars an unlawful tying claim. The economic inconsistency (and therefore factual implausibility) of price-takers forcing a tie is pressed into service in the form of a market power requirement that screens out tying products sold by price-takers. For the reasons set forth above, this mild requirement can and should in the first instance be deemed to have been met whenever the tying product is covered by a valid patent.

D. In Addition to Market Power Sufficient to Force a Tie, Other Stringent Prerequisites Must Be Satisfied Before any Tying Arrangement May Be Found to be Unlawful *Per Se*.

Even a plaintiff that avails itself of the rebuttable presumption must still overcome formidable burdens to establish make for unlawful tying. It is unlikely, therefore, that even the complete elimination of the economic power requirement in the tying product market would lead to the flood of meritless litigation and false positives that Petitioners and its *amici* predict and claim to seek to avoid by eliminating the rebuttable presumption. See Br. Gov't. 27. In the same vein, Petitioners argue that the rebuttable

presumption permits "deficient claims [to] survive motions to dismiss and for summary judgment." Br. Pet. 33. However, such concerns are misplaced. The tying product market power requirement is only one among several requirements that must be established before a defendant may be found to have violated the § 1 *per se* prohibition on certain tying arrangements. A typical enumeration of the elements of a *per se* tying violation is

> 1) that there are two separate products, a "tying" product and a "tied" product;
> 2) that those products are in fact "tied" together—that is, the buyer was forced to buy the tied product to get the tying product;
> 3) that the seller possesses sufficient economic power in the tying product market to coerce buyer acceptance of the tied product; and
> 4) foreclosure effect on a "not insubstantial" amount of interstate commerce in the market of the tied product.

Thomson v. Metropolitan Multi-List, Inc., 934 F.3d 1566 1574 (11th Cir. 1991), *cert. denied*, 506 U.S. 903 (1992). Some courts add a further requirement that the tying company have an economic interest in the tied product. See *Keener v. Sizzler Family Steak Houses*, 597 F.2d 453 (5th Cir. 1979). In addition, a tying plaintiff must show "antitrust injury" and overcome any defense to these elements, including business or technical justifications for the tie.

Indeed, abolishing the rebuttable presumption is more likely to discourage the filing of well-founded antitrust claims because of the unnecessary burden it would place on plaintiffs to provide the court with an analysis of the tying product market in all cases, whether necessary or not.

E. The Rebuttable Presumption At Issue Does Not Risk Inhibiting Innovation, Procompetitive Marketing, or Other Efficiency-Enhancing Conduct.

Neither Petitioners nor their *amici* advance any persuasive procompetitive justification for tying a patented product to a separate, non-infringing product. The government, urging that the rebuttable presumption "conflicts with the procompetitive policies of the antitrust laws," alludes in a final footnote to certain practices that supposedly "enhance consumer welfare in a variety of ways through, for example, economies of joint sales, quality assurance, protection of goodwill, and cheating on a cartel price." Br. Gov't 29 n. 23 (citations omitted).

How such speculative benefits depend on forced tying of a single, patented print-head technology license to the obligation to purchases of all the ink used with it from a specific vendor is not spelled out. Admittedly, "economies of joint sales" justified a degree of leniency in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1 (1979). Moreover, as the Intellectual Property Owners Association suggests, "bundling very large numbers of unrelated information goods can be quite profitable." Br. IPOA 14.

But *Broadcast Music* was decided in the context of permitting a non-forced blanket license instead of requiring what could have been for some licensees thousands of separately negotiated licenses for song performance rights. In that case, the efficiencies to be achieved from the blanket license were obvious and not, as in the present case, left to the imagination. The option of separate licenses was also a critical factor in the Court's determination to apply the rule of reason; forced tying was clearly not necessary to achieve the efficiencies available from a blanket license offering. Since the present case does not involve a database (i.e., "large amounts of information goods") or a catalogue of tens of thousands of song titles, the theoretical possibility of

efficiencies in those cases seems inapposite. Without so much as even a *theoretical* showing of how the joint sale of the products in the case now before this Court creates "joint sale efficiencies," or why forced tying is the only way to achieve them, the claim that they do amounts to little more than vacuous sloganeering.

The same type of criticism can be made against the government's mention of "quality assurance" and "protection of goodwill" as procompetitive justifications for the tie in this case. This justification was given short shrift in this Court's decision in *International Business Machines v. United States*, 298 U.S. 131 (1936), where IBM claimed that it was

> essential to the successful performance of the leased [punch card tabulating] machines that the cards used in them conform, with relatively minute tolerances, to specifications as to size, thickness, and freedom from defects which would affect adversely the electrical circuits indispensable to the proper operation of the machines.

IBM, 298 U.S., at 138-39. This Court found that "others are capable of manufacturing cards suitable for use in appellant's machines," just as the record here reveals that Respondent is capable of manufacturing inks suitable for use in Petitioners' ink jet print-heads. The Court held that IBM was

> not prevented from proclaiming the virtues of its own cards or warning against the danger of using, in its machines, cards which do not conform to the necessary specifications, or even from making its leases conditional upon the use of cards which conform to them. For aught that appears such measures would protect its good will, without ... the

suppression of competition.

IBM, 298 U.S. at 139-40. Similarly, here Petitioners' goodwill and its interests in quality assurance can be adequately protected without tying the sale of the print-head to any specific ink.

Similarly, the government suggests that "metering," *i.e.*, extracting a higher payment from intensive users than from less intensive users is a procompetitive justification for tying consumable complementary supplies to the use of a device. This claim is based on the flawed analogy that metering is merely price discrimination which, in some cases, enhances output. But under fairly general assumptions (and thus in most cases), tying reduces output in the tied product market compared to what it would be without it. The output-enhancing effect of price discrimination due to metering based on tying consumables, therefore, would ordinarily be outweighed by the competitive harm in the tied market due to the tie.

Finally, there is no evidence or even allegation of any cartel in this matter, so whatever conceivable procompetitive policy the government may have had in mind in mentioning "cartel pricing" cannot in any sense be relevant here.[8]

Petitioners' wholly unsupported claim that "most tying arrangements are economically beneficial" is unavailing. Br. Pet. 29. There is nothing to indicate that any of the circumstances involved in the instances of "beneficial" tying that they cite apply in the case of print-heads and ink. In

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[8]In contrast to the leap of faith required to conjure up procompetitive justifications for tying, the anticompetitive effects often seem self-evident. *See, e.g.*, Alex Berenson, *Pfizer Stirs Concern With Plans To Sell Heart Drugs Only as Pair*, New York Times, March 7, 2005 (reporting that physicians are critical of a drug company's plan to sell a new heart medication only in combination with its best selling cholesterol treatment because it would effectively bar patients from taking the new medication "with similar drugs not from Pfizer that may work better for them.")

short, there has been no demonstration how the rebuttable presumption at issue in this case conflicts with any procompetitive values of antitrust.

Another claim, that retaining the rebuttable presumption will inhibit innovative activity, has been pressed by Petitioner, the government, and the other *amici*. As the government explains, "a market power presumption that undermines perceived rewards may constitute a drag on innovation or, at a minimum, cause firms with patents to forgo potentially efficient tying arrangements." Br. Gov't 28 (footnote omitted). This passage concludes with a footnote that cites F.M. Scherer, *The Innovation Lottery*, in *Expanding the Boundaries of Intellectual Property* 20 (Rochelle Dreyfuss et al. eds., 2001) for the proposition that "investments in technological and artistic creation are motivated by the longshot hope of a very large reward."

The Scherer quotation is taken out of context and misleading. Immediately preceding the quoted language the author states that "[w]hen corporate hierarchies must decide whether or not to invest substantial sums on the commercial development of an invention, risk aversion, *not skewness affinity*, is almost surely the behavioral norm." *Id.* (emphasis added). The passage quoted by the government refers to a hypothesis about the behavior of a small minority of "nothing-to-lose" entrepreneurs willing to bet excessively relative to the small expected value of a large but highly unlikely return. By contrast, Professor Scherer states, "it seems less likely that decision-making in well-established corporate organizations conforms to the hypothesis." *Id.* In sum, the behavior alluded to by the government is unlikely to apply to the antitrust defendants in this case, which are "well-established corporate organization[s]."

The Intellectual Property Law Association of Chicago (IPLAC) states that "the antitrust presumption against patent owners who commercialize their inventions is effectively a penalty or disincentive to innovate or patent an innovation." Br. IPLAC 11. But this group does not explain

even theoretically how the rebuttable presumption—applied only in tying cases—acts as a disincentive to innovation. If they are arguing that inventors *rely* on the gain to be had from tying patented goods to non-patented goods as a part of their incentive to invent in the first place, it represents a highly unlikely and unorthodox view of the incentives created by the patent system and implies counterfactually that most patent owners engage in tying conduct.

Moreover, no showing has been made that the rebuttable presumption deprives defendants of any opportunity to present evidence that the tying arrangement is efficiency-enhancing or procompetitive. This is probably because when tying impedes competition in the tied market this anticompetitive effect will usually outweigh any output-enhancing effect of price discrimination.[9] Indeed, the lack of any obvious justification for or beneficial effect from the type of tying involved in this case is precisely what justifies the application of *per se* treatment in the first place, even where liability is conditional on a set of prerequisites. See *State Oil Co. v. Kahn*, 522 U.S. 3, 10 (1997) (reaffirming that some forms of restraint on trade "have such predictable and pernicious anticompetitive effect, and such limited potential for procompetitive benefit, that they are deemed unlawful *per se*").

F. Requiring Market Power in the Tying Good Market In Excess of that which is Necessary to Force a Tie Should Not Now Be Instituted as a Prerequisite to Finding that a Tying Arrangement is Unlawful *Per Se*.

Justice White dissented from this Court's denial of

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[9] *See, e.g.*, Michael D. Whinston, *Tying, Foreclosure, and Exclusion*, 80 Am. Econ. Rev. 838 (1990) (demonstrating that by focusing exclusively on the price discrimination effect of tying and ignoring exclusionary effects the "tying-is-benign" economic literature improperly assumes that tying is as likely to be competitively benign as to be harmful).

certiorari in *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (White, J., dissenting) in part because of the need in his view to resolve substantial questions in the area of tying in antitrust law and policy, "including what constitutes forcing power in the absence of a large share of the general market." *Id.*, at 909.

Should the Court now seize the present opportunity to resolve this question, we respectfully urge that it respect and retain the sound economic reasoning in this Court's precedents as interpreted herein and, in any case, decline to impose a monopolization requirement in the tying product market, or to adopt an interpretation of the market power requirement in the tying product market that rises to the standard employed in matters arising under § 2 of the Sherman Act.

To impose a monopolization standard in the tying product market would be to merge § 1 tying law with § 2 monopolization law, and to eviscerate the offense of tying by relegating it to a redundancy. Consistent with modern economic theory, the Court should continue to presume that product differentiation empowers sellers with a degree of discretion over price and, thus, to enable such sellers to force a tie.

G. The Rebuttable Presumption At Issue Promotes Judicial Economy Because It Frequently Obviates a Judicial Inquiry into the Competitive Conditions in the Tying Product Market.

Since the trade alleged to be restrained in the present case is the trade in ink (the tied product) and not the trade in products that compete with Respondent's print-heads (the tying product), the rebuttable presumption in this case allows the district court to avoid an unnecessary analysis of competitive conditions in the tying market, thereby materially contributing to judicial economy. Moreover, it does so without either detracting from a defendant's due

process or other fundamental rights or by imposing any other kind of undue burden.

In cases in which the seller of a patented tying product claims to lack sufficient market power to force the tie being sued upon it is more logical and efficient for the defendant rather than the plaintiff to bear the burden of going forward with evidence on this issue. Such an inquiry should only be required when there is a legitimate issue in the tying market that demands judicial resolution. In those cases, defendants have free reign to develop any and all evidence relevant to whether or not market conditions are such that a forced tie is economically implausible.

Moreover, evidence relevant to the issue of the defendant's economic power to force the tie is more likely to be in the defendant's rather than the plaintiff's possession. Plaintiff's claim in this case concerns antitrust injury and harm to competition in the market for the *tied* product. In light of the requirement that the plaintiff must prove that tied sales actually occurred, unless there is a genuine issue in the *tying* market due to extraordinary competitive conditions there, indicia of product differentiation (such as a patent) should suffice. Where extraordinary conditions do obtain, the defendant and not the plaintiff is more likely to know about conditions in its own market, and have the means to adduce the relevant proof.

II. A PATENTEE HAS NO LEGAL RIGHT TO EXCLUDE COMPETITION IN NON-INFRINGING PRODUCTS, EVEN IF SUCH COMMERCE DEPENDS ON AND IS STRONGLY COMPLEMENTARY TO THE PATENTED TECHNOLOGY.

This Court long ago declared that "a patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using, or selling that which he has invented." *Motion Picture Patents Co. v. Universal Film*

Manufacturing Co., 243 U.S. 502 (1917). In that case, those principles moved this Court to hold that

> whatever the right of the owner may be to control by restriction the materials to be used in operating [a patented] machine, it must be a right derived through the general law from the ownership of the property in the machine, and it cannot be derived from or protected by the patent law, which allows a grant only of the right to an exclusive use of the new and useful discovery which has been made,—this and nothing more.

Id. at 513. This policy is embodied in the doctrine of patent misuse, which bars infringement claims in circumstances in which the patentee has impermissibly broadened the "physical or temporal scope" of the patent grant with anticompetitive effect. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343 (1971).

In aligning the antitrust law of tying to affirmatively prohibit such anticompetitive patent extensions, this Court in *Loew's* observed that the cases establishing the patent misuse doctrine "reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." *Loew's*, 371 U.S. at 45. This proposition is equally valid when the tied market is strongly complementary to the tying market, as when tied replacement parts for the tying product are custom designed. Competition in the tied market may be imperfect for many reasons, including the technical difficulty or expense in competitively supplying such parts. But when a not insubstantial amount of commerce in the tied market is affected not because the products are technically difficult to bring to market but because of restrictive agreements exacted by the seller of the tying product, competition in

that market is unreasonably restrained. The fact that commerce in that market would not exist but for the existence of the tying product does not make the tying agreement any less unreasonably restrictive. Antitrust tying law should continue to prohibit patentees from suppressing competition in markets for non-infringing complementary products.

A. The Rebuttable Presumption at Issue Harmonizes Antitrust Law with Well-Settled Principles of Patent Law.

Under current law, patent law and antitrust tying doctrine are logically aligned. In instances in which a patentee has extended through forced tying the exclusivity granted by the patent so as to satisfy the standard required of the patent misuse defense such a patentee should not only be barred from enforcing its patent through an action for infringement but should also be subject to antitrust liability for the harm to competition and antitrust injury that such conduct has proximately caused. The policy furthered by the patent misuse doctrine in patent cases (which always involve patents) is the same policy served by the rebuttable presumption in tying cases (which sometimes involves patented tying products).

The abrogation by Congress in 1988 of a rebuttable presumption in a patent misuse defense does not alter the equivalence of these policies. Act of Nov. 19, 1988, Pub.L. No. 100-703, § 201, 102 Stat. 4674, 4676, codified at 35 U.S.C. § 271(d)(5) (2000). As the court of appeals in this case observed, while the Senate version of the bill abrogated the rebuttable presumption in the tying sphere, that language was removed in a House amendment, "making clear that Congress was not attempting to change existing law in this respect." 396 F.3d at 1349.

B. Excluding Competition in Lines of Commerce Beyond the Statutory Patent Grant Is Unlawful Anticompetitive Conduct Under the Antitrust Laws.

As this Court pointed out in *Jefferson Parish*, when the seller uses market power to increase the price it charges for a product, "the competitive ideal of the Sherman Act is not necessarily compromised." 466 U.S. at 13-14. In this context, this statement means that a patentee is free to charge whatever price for its invention the market will bear, and not risk offending the antitrust laws. But if the patentee impairs competition on the merits in another market, "a potentially inferior product may be insulated from competitive pressures." *Id.*

Antitrust and competition policy are well-served by a rule that prohibits a patentee from imposing a burdensome tying obligation that is anticompetitive in the tied market. Such a rule promotes the policies of the patent system, and thereby encourages innovation, by bringing antitrust law into harmony with one of the most fundamental precepts of patent law. The rebuttable presumption at issue in this case serves these policies well and should be retained.

Conclusion

For the foregoing reasons, the judgment of the court of appeals should be affirmed.

Respectfully submitted,

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